

## Message Text

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41

ACTION EA-09

INFO OCT-01 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 ITC-01 ABF-01 /108 W

----- 086164

R 130710Z SEP 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9395

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

US MISSION GENEVA 378

USDEL MTN GENEVA

UNCLAS SEOUL 7238

HONG KONG FOR REGIONAL FINANCIAL ATTACHE

E.O. 11652: N/A

TAGS: EFIN, ETRD, GATT, MTN

SUBJ: ANOTHER BANNER MONTH FOR THE KOREAN ECONOMY

REF: (A) SEOUL 6266, (B) SEOUL 6069

SUMMARY: WITH THE EXCEPTION OF SOME SLACKENING IN NEW EXPORT ORDERS, AUGUST WAS ANOTHER BANNER MONTH FOR THE KOREAN ECONOMY AS FOREIGN EXCHANGE RESERVES, THE FISCAL SURPLUS AND INDUSTRIAL PRODUCTION ALL REGISTERED FURTHER GAINS. END SUMMARY.

1. A SLOWING OF NEW EXPORT ORDERS (EXPORT LETTER-OF-CREDIT ARRIVALS) WAS THE ONE OFF BEAT NOTE IN OTHERWISE HIGHLY FAVORABLE AUGUST DATA ON THE KOREAN ECONOMY. PRELIMINARY DATA SHOW AUGUST EXPORT L/C'S SLIPPING TO \$601 MILLION AS COMPARED TO THE ROUGHLY \$670 MILLION PER MONTH  
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RECORDED IN JUNE AND JULY AND THE \$700 MILLION PLUS

TOTALS REGISTERED DURING THE TEXTILE ORDERING BOOM OF MARCH AND APRIL. WHILE DETAILS ARE NOT YET AVAILABLE, EARLY INDICATIONS ARE THE SLOWDOWN REFLECTS A DROP IN NEW TEXTILE AND LEATHER APPAREL ORDERS, ATTRIBUTABLE IN PART TO SEASONAL FACTORS AND IN PART TO FASHION CHANGES THAT HAVE TEMPORARILY CAUGHT KOREAN MANUFACTURERS OUT OF STEP. KFX IMPORT LICENSING, IN CONTRAST, HIT \$662 MILLION, MAKING IT THE FIRST MONTH THIS YEAR THAT KFX IMPORT LICENSING HAS EXCEEDED EXPORT L/C ARRIVALS.

2. AUGUST EXPORT SHIPMENTS, ON A KOREAN FOREIGN EXCHANGE (KFX) BASIS, WERE A STRONG \$691 MILLION, THE THIRD STRAIGHT MONTH OF KFX EXPORTS AT OR NEAR THE \$700 MILLION LEVEL. WITH KFX COMMODITY IMPORTS AT A SURPRISINGLY LOW \$513 MILLION AND A NET SURPLUS OF \$27 MILLION IN THE KFX SERVICES ACCOUNT, KFX CURRENT ACCOUNT TRANSACTIONS SHOWED A SURPLUS OF \$205 MILLION FOR THE MONTH. THE SURPLUS ON THIS BASIS FOR THE YEAR TO DATE IS NOW \$642 MILLION AS COMPARED TO A DEFICIT OF \$898 MILLION FOR THE SAME EIGHT MONTHS OF 1975, A SWING OF \$1.5 BILLION. GROSS FOREIGN EXCHANGE RESERVES, ROSE A FURTHER \$137 MILLION IN AUGUST, ENDING AT \$2,265 MILLION AS OF AUGUST 31.

3. MONEY SUPPLY (M-1) GREW A SEASONALLY ADJUSTED 2.4 PERCENT IN AUGUST, RAISING THE SEASONALLY ADJUSTED JAN-AUGUST INCREASE TO 21 PERCENT. WHILE THIS COMPUTES TO AN ANNUAL RATE OF 33 PERCENT AGAINST THE OFFICIAL TARGET OF 25 PERCENT FOR THE YEAR, THE RATE OF GROWTH, ADJUSTED FOR SEASONAL FACTORS, HAS ACTUALLY BEEN EASING SOMEWHAT IN RECENT MONTHS DESPITE THE STRONGLY EXPANSIONARY FOREIGN SECTOR. MUCH OF THE EXPLANATION LIES IN THE CONTINUED CONTRACTIONARY IMPACT OF GOVERNMENT FISCAL PERFORMANCE WHERE THE OVERALL FISCAL SURPLUS NOW TOTALS 220 BILLION WON FOR THE FIRST EIGHT MONTHS. AUGUST ALSO SAW A NET INCREASE OF 59 BILLION WON IN TIME AND SAVINGS DEPOSITS, PRESUMABLY PROMPTED IN PART BY THE INTEREST RATE REVISIONS OF AUGUST 2 (SEE REF B).

4. RELATIVE PRICE STABILITY CONTINUED IN AUGUST WITH THE WHOLESALE AND CONSUMER PRICE INDICES TRACKING AT 9.2 UNCLASSIFIED

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PERCENT AND 11.6 PERCENT RESPECTIVELY ABOVE A YEAR EARLIER. THE INDUSTRIAL PRODUCTION INDEX, MEANWHILE, JUMPED 5 PERCENT ON A SEASONALLY ADJUSTED BASIS IN JULY, THE LATEST MONTH FOR WHICH DATA ARE AVAILABLE, BOOSTING CUMULATIVE JANUARY-JULY PRODUCTION TO A LEVEL 38 PERCENT ABOVE THAT OF THE SAME PERIOD FOR 1975.

5. COMMENT: THE LOWER EXPORT L/C ARRIVAL FIGURE MAY

INDICATE THAT A LITTLE OF THE STEAM IS COMING OUT OF  
THE EXPORT BOOM, BUT, FOR THE TIME BEING AT LEAST,  
WE ARE INCLINED TO VIEW IT AS A TEMPORARY, AND LARGELY  
SEASONAL, PAUSE.  
STERN

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## Message Attributes

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